

DALLAS COUNTY HOSPITAL
Perry, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2006 and 2005**

Together with Independent Auditor's Report

DALLAS COUNTY HOSPITAL

Perry, Iowa

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DALLAS COUNTY HOSPITAL

Perry, Iowa

OFFICIALS

June 30, 2006

Board of Trustees

Term Expires

Joe Emerson, Chairman	Officer	December 31, 2006
LuAnn VanKirk, Vice-Chairman	Officer	December 31, 2006
Christie Creighton, Secretary	Officer	December 31, 2008
Marc Meyer, Treasurer	Officer	December 31, 2010
Marsha McClintock	Member	December 31, 2006
Rich Jones	Member	December 31, 2008
Harley Weyer	Member	December 31, 2010
Laurie Conner	Chief Executive Officer	Indefinite
Sandra Christensen	Chief Financial Officer	Indefinite
Donna Vandehaar	Chief Clinical Officer	Indefinite



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Roger E. Howard, CPA
Roger E. Thompson, CPA
Tom H. Schnack, CPA
Daniel L. Hassel, CPA
Dennis K. Grindle, CPA
Dennis R. Hein, CPA
Brent T. Frieauf, CPA
Barbara J. Fajen, CPA
Brian D. Green, CPA

Independent Auditor's Report

To the Board of Trustees of
Dallas County Hospital
Perry, Iowa:

We have audited the accompanying basic financial statements of DALLAS COUNTY HOSPITAL (Hospital), as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Dallas County Hospital Foundation (Foundation), a component unit of Dallas County Hospital as of or for the year ended June 30, 2006 and 2005, for which the Hospital is the guarantor of the debt of the Foundation. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Dallas County Hospital Foundation, is based solely on the report of other auditors. The financial statements of the Hospital for the year ended June 30, 2005 were audited by other auditors whose report, dated September 28, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dallas County Hospital as of June 30, 2006, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2006, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on page 3 through 8 and page 30 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in Exhibits 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
September 14, 2006.

DALLAS COUNTY HOSPITAL
Perry, Iowa

Management's Discussion and Analysis
June 30, 2006 and 2005

As management of Dallas County Hospital (Hospital), we offer readers of the Hospital's financial statements this narrative overview and analysis of the financial performance of our hospital during the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report, the basic financial statements and supplementary information of the Hospital. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Hospital report information of the Hospital using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenue and expenses are accounted for in the statement of revenue, expenses, and changes in net assets. This statement measures the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL HIGHLIGHTS

- Total assets decreased by \$371,205 to \$19,584,257 in 2006, following an increase of \$2,012,545 to \$19,955,462 in 2005.
- Total assets limited as to use decreased by \$1,799,379 in 2006 and increased by \$93,369 in 2005.
- Capital assets, net, increased by \$1,874,202 in 2006 and \$1,777,780 in 2005.
- Total debt decreased by \$569,243 in 2006, compared to an increase of \$1,046,939 in 2005.
- Total net assets decreased by \$519,470 in 2006, compared to an increase of \$785,599 in 2005.
- Net patient service revenue increased by \$534,732 in 2006, and \$627,112 in 2005, due to a combination of increased utilization and inflationary charge increases.
- Expenses increased by \$1,233,649, or 13.07% in 2006 due to the opening of a hospital addition and miscellaneous other events, compared to an increase of \$566,579 or 6.57% in 2005.
- Total margin for fiscal year 2006 was (.95%), compared to 7.9% for fiscal year 2005.

DALLAS COUNTY HOSPITAL
Perry, Iowa

Management's Discussion and Analysis
June 30, 2006 and 2005

FINANCIAL ANALYSIS OF THE HOSPITAL

The balance sheet and the statement of revenue, expenses, and changes in net assets report the net assets of the Hospital and the changes in them. The Hospital's net assets – the difference between assets and liabilities – are a way to measure financial health or financial position. Over time, sustained increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

NET ASSETS

A summary of the Hospital's balance sheets at June 30, 2006 and 2005, are presented in Table 1 below.

Table 1 - Condensed Balance Sheets

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>Change from</u> <u>Prior Year</u>	<u>Percent</u> <u>Change</u>
Assets:				
Current and other assets	\$ 8,789,754	11,035,161	(2,245,407)	(20.35) %
Capital assets, net	<u>10,794,503</u>	<u>8,920,301</u>	<u>1,874,202</u>	<u>21.01 %</u>
Total assets	<u><u>19,584,257</u></u>	<u><u>19,955,462</u></u>	<u><u>(371,205)</u></u>	<u><u>(1.86) %</u></u>
Liabilities:				
Long-term debt outstanding	3,682,494	4,273,176	(590,682)	(13.83) %
Other liabilities	<u>4,253,971</u>	<u>3,515,024</u>	<u>738,947</u>	<u>21.02 %</u>
Total liabilities	<u><u>7,936,465</u></u>	<u><u>7,788,200</u></u>	<u><u>148,265</u></u>	<u><u>1.90 %</u></u>
Net Assets:				
Invested in capital assets, net of related debt	6,737,381	4,315,668	2,421,713	56.11 %
Restricted for debt service	509,955	498,968	10,987	2.20 %
Unrestricted	<u>4,400,456</u>	<u>7,352,626</u>	<u>(2,952,170)</u>	<u>(40.15) %</u>
Total net assets	<u><u>\$ 11,647,792</u></u>	<u><u>12,167,262</u></u>	<u><u>(519,470)</u></u>	<u><u>(4.27) %</u></u>

As can be seen by Table 1, net assets decreased by \$519,470 to \$11,647,792 in fiscal year 2006 down from \$12,167,262 in fiscal year 2005. The change in net assets results primarily from recording of the allowance to adjust the value of the Other receivable-Foundation to the current estimated value at fiscal year end 2006.

Amounts loaned to the foundation at time of construction of the Spring Valley Assisted Living facility were deemed as unlikely to be collectable by management in fiscal year 2006. Therefore a provision for bad debt was recorded for the \$500,000 loan amount.

DALLAS COUNTY HOSPITAL

Perry, Iowa

Management's Discussion and Analysis June 30, 2006 and 2005

REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

The following table presents a summary of the Hospital's historical revenue and expenses for each of the fiscal years ended June 30, 2006 and 2005:

Table 2 - Condensed Statements of Revenue, Expenses, and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>Change from Prior Year</u>	<u>Percent Change</u>
Operating Revenue:				
Net patient service revenue	\$ 9,195,920	8,661,188	534,732	6.17 %
County tax revenue	1,274,332	1,275,831	(1,499)	(0.12) %
Other operating revenue	366,543	263,817	102,726	38.94 %
Total operating revenue	<u>10,836,795</u>	<u>10,200,836</u>	<u>635,959</u>	<u>6.23</u> %
Operating Expenses:				
Salaries	3,475,768	3,164,726	311,042	9.83 %
Employee benefits	659,921	698,853	(38,932)	(5.57) %
Professional fees	2,510,930	2,149,373	361,557	16.82 %
Supplies and other	3,013,014	2,544,947	468,067	18.39 %
Depreciation and amortization	1,014,639	882,724	131,915	14.94 %
Total operating expenses	<u>10,674,272</u>	<u>9,440,623</u>	<u>1,233,649</u>	<u>13.07</u> %
Operating Income	<u>162,523</u>	<u>760,213</u>	<u>(597,690)</u>	<u>(78.62)</u> %
Nonoperating Revenue (Expense), Net:				
Investment income	243,738	173,714	70,024	40.31 %
Provision for bad debt, Foundation receivable	(500,000)	--	(500,000)	-- %
Other nonoperating revenue and expenses, net	(9,090)	(123,078)	113,988	92.61 %
Nonoperating revenue (expense), net	<u>(265,352)</u>	<u>50,636</u>	<u>(315,988)</u>	<u>(624.04)</u> %
Excess of Revenue Over (Under) Expenses Before Transfers to Foundation	<u>(102,829)</u>	<u>810,849</u>	<u>(913,678)</u>	<u>(112.68)</u> %
Transfers to Foundation	<u>(416,641)</u>	<u>(25,250)</u>	<u>(391,391)</u>	<u>(1,550.06)</u> %
Increase (Decrease) in Net Assets	<u>(519,470)</u>	<u>785,599</u>	<u>(1,305,069)</u>	<u>(166.12)</u> %
Net Assets, beginning of year	<u>12,167,262</u>	<u>11,381,663</u>	<u>785,599</u>	<u>6.90</u> %
Net Assets, end of year	<u>\$ 11,647,792</u>	<u>12,167,262</u>	<u>(519,470)</u>	<u>(4.27)</u> %

DALLAS COUNTY HOSPITAL

Perry, Iowa

Management's Discussion and Analysis June 30, 2006 and 2005

Operating and Financial Performance

- **Volume:** Acute inpatient discharges for fiscal year 2006 were 305 compared to 293 in fiscal year 2005. Acute patient days remained consistent with prior year statistics with only a decrease of seven days or (.72)%. Swing bed discharges increased by 5.6 % for fiscal year 2006 to a total of 132 discharges. Outpatient visits decreased by 3.39% to 25,774 visits in fiscal year 2006. The following departments did experience increases in volumes for fiscal year 2006: CT Scanning, MRI, Pet CT, Cardiac Diagnostic and Therapy Services. Pet CT was a new mobile service added in fiscal year 2006.
- **Net Patient Service Revenue:** Due to an average rate increase of 4% effective July 1, 2005, and the type of procedures that saw an increase in volumes as discussed above, net patient service revenue climbed by \$534,732, or 6.17% compared to fiscal year 2005. During the fiscal year, Dallas County Hospital's contractual allowances (the difference between billed charges and paid charges from third party payers) increased by \$285,937. Contractual allowances as a percentage of gross patient revenue increased to 13.85% of gross charges in 2006 compared to 12.45% in 2005. A policy change occurred in the classification of Provision for Bad Debts and Charity Care. The DCH Board of Trustees approved new charity care policies in January 2006. With this approval it is not longer assumed that 50% of the bad debts written off would have qualified for charity care had the patient completed the application process and therefore classified as such on the trial balance. The current policy only records as charity care those accounts of patients that have completed the formal application process and the remaining are classified as bad debt expense.
- **Changes in Net Assets:** In fiscal year 2006, previous amounts transferred to the Foundation were deemed to be uncollectible and were considered to be a transfer of equity to this related organization. The amount recorded as a transfer of \$416,641 includes current and prior year transfers that had previously been recorded as other receivables.

The following table presents the relative percentages of gross charges for patient services by payer for the years ended June 30, 2006 and 2005:

Table 3 - Payor Mix by Percentage

	June 30	
	2006	2005
Medicare	52.60%	56.90%
Blue Cross (Wellmark)	16.20%	14.90%
Medicaid	7.90%	7.10%
Private Pay	4.70%	4.70%
Other commercial insurance	18.60%	16.40%
Total	<u>100.00%</u>	<u>100.00%</u>

DALLAS COUNTY HOSPITAL
Perry, Iowa

Management's Discussion and Analysis
June 30, 2006 and 2005

Significant changes in operations from fiscal year 2006:

- **Other Operating Revenue:** Fiscal year 2006 showed an increase of \$102,726 in other operating revenue. A grant to complete a community needs assessment for \$57,667 was received, along with an additional \$13,938 for Emergency Preparedness activities. These grants were not received in fiscal year 2005. Also in fiscal year 2006 with the opening of the new South Entrance, revenue from the developer has been received beginning in March 2006 for reimbursement of utilities, cleaning services and building management.
- **Salary Expense:** Salary expense increased \$311,042 or 9.83%. Salary expense constitutes 32.56% of total expenses in 2006. With this organization being in close proximity to the Des Moines Metropolitan area and the continued increase in regulatory requirements, the Hospital continues to adjust wages to retain and attract talented and qualified staff plus have adequate support staff to monitor and administer regulations to remain compliant with State and Federal guidelines.
- **Professional Fees:** Fiscal year 2006 showed an increase of \$361,557 or 16.82% increase in professional fees. The primary reason for this increase was due a continuation of increased utilization of current and new mobile services like MRI and Pet CT, a full year of higher support/maintenance costs associated with the health information software system and a general increase in volumes for services that utilize a contracted service.
- **Depreciation and Amortization:** Fiscal year 2006 showed an increase in depreciation due to the opening of the new south addition, addition of new furnishings, and a full year of depreciation for the West Addition that was opened for service in fiscal year 2005.
- **Other Expenses:** Fiscal year 2006 showed an increase in other expense due to the opening of the new South Entrance of the hospital. The Hospital added a new lease for this space plus additional utilities and facility expenses for an additional 19,587 rentable square feet.

CAPITAL ASSETS

At the end of fiscal year 2006, the Hospital has invested \$2,510,144 during the year in capital assets. Equipment, building and fixed equipment purchases were \$684,393 due the addition of new furniture and fixtures for the new south addition areas. Construction in progress additions of \$2,193,834 was used for the hospital wide remodel project that is scheduled to be completed in the 2006-07 fiscal year.

DALLAS COUNTY HOSPITAL

Perry, Iowa

Management's Discussion and Analysis June 30, 2006 and 2005

The following table summarizes the Hospital's capital assets as of June 30, 2006 and 2005:

Table 4 - Capital Assets

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>Change from</u> <u>Prior Year</u>
Land	\$ 69,523	69,523	--
Land improvements	384,892	384,892	--
Buildings	5,861,271	5,861,271	--
Building service equipment	3,231,841	2,661,861	569,980
Fixed equipment	498,313	413,762	84,551
Major moveable equipment	5,627,149	5,329,253	297,896
Construction in progress	<u>3,960,452</u>	<u>2,034,652</u>	<u>1,925,800</u>
Subtotal	19,633,441	16,755,214	2,878,227
Less accumulated depreciation	<u>(8,838,938)</u>	<u>(7,834,913)</u>	<u>(1,004,025)</u>
Property plant and equipment, net	<u>\$ 10,794,503</u>	<u>8,920,301</u>	<u>1,874,202</u>

DEBT ADMINISTRATION

Long-Term Debt

At year-end, the Hospital had \$3,895,000 in short- and long-term debt related to Hospital Revenue Bonds and Notes. This has decreased from \$4,325,000 in fiscal year 2005. The Hospital incurred new debt in fiscal year 2005 for the purchase of new organizational wide software and hardware implementation. No new debt was incurred in fiscal year 2006. The outstanding debt for capital leases at the end of fiscal year 2006 was \$378,148. This decreased by \$139,243 in fiscal year 2006, which was the amount of principal payments on this debt. More detailed information about the Hospital's outstanding debt is presented in the Notes to the Financial Statements. Note that total debt represents 37% of the Hospital's equity as of year-end 2006. This is a decrease from 40% in 2005.

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at Dallas County Hospital, 610 10th Street, Perry, Iowa 50220. Phone number 515-465-3547.

DALLAS COUNTY HOSPITAL
Perry, Iowa

Balance Sheets
June 30, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 96,815	361,529
Assets limited as to use - required for current liabilities	79,955	68,968
Receivables -		
Patient, net of allowance for doubtful accounts of \$265,083		
in 2006 and \$208,158 in 2005	1,380,320	861,343
Other	136,708	351,182
Succeeding year property tax	1,437,611	1,381,647
Inventories	252,781	242,307
Prepaid expenses	131,528	142,390
Estimated third-party payor settlements - Medicare and Medicaid	<u>--</u>	<u>9,048</u>
Total current assets	3,515,718	3,418,414
Assets limited as to use, net of current portion		
By board for capital improvements	4,503,670	6,314,036
By trustee for debt service	430,000	430,000
Capital assets, net	10,794,503	8,920,301
Deferred financing costs, net	124,340	134,953
Rental property, net	216,026	237,758
Other receivable, Foundation, net of allowance	<u>--</u>	<u>500,000</u>
Total assets	\$ <u><u>19,584,257</u></u>	<u><u>19,955,462</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 590,654	569,215
Accounts payable -		
Trade	514,330	501,067
Construction	678,731	310,648
Salaries, wages and accrued vacation payable	374,797	465,032
Payroll taxes withheld	95,490	43,388
Accrued interest payable	15,486	16,695
Estimated third-party payor settlements - Medicare and Medicaid	170,088	--
Deferred revenue - previous years' property taxes	<u>376,784</u>	<u>227,332</u>
Total current liabilities	2,816,360	2,133,377
Deferred revenue for succeeding year property tax receivable	1,437,611	1,381,647
Long-term debt, net of current maturities	<u>3,682,494</u>	<u>4,273,176</u>
Total liabilities	<u>7,936,465</u>	<u>7,788,200</u>
Net assets:		
Invested in capital assets, net of related debt	6,737,381	4,315,668
Restricted for debt service	509,955	498,968
Unrestricted	<u>4,400,456</u>	<u>7,352,626</u>
Total net assets	<u>11,647,792</u>	<u>12,167,262</u>
Total liabilities and net assets	\$ <u><u>19,584,257</u></u>	<u><u>19,955,462</u></u>

See notes to financial statements

DALLAS COUNTY HOSPITAL

Perry, Iowa

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 9,616,630	8,838,903
Provision for bad debt	<u>(420,710)</u>	<u>(177,715)</u>
Net patient service revenue	9,195,920	8,661,188
County tax revenue	1,274,332	1,275,831
Other operating revenue	<u>366,543</u>	<u>263,817</u>
Total operating revenue	<u>10,836,795</u>	<u>10,200,836</u>
OPERATING EXPENSES:		
Salaries	3,475,768	3,164,726
Employee benefits	659,921	698,853
Professional fees	2,510,930	2,149,373
Utilities	380,106	243,057
Supplies	1,378,011	1,265,667
Repairs, maintenance and small equipment	450,227	316,651
Depreciation and amortization	1,014,639	882,724
Insurance	134,716	135,253
Interest	199,168	224,008
Other	<u>470,786</u>	<u>360,311</u>
Total operating expenses	<u>10,674,272</u>	<u>9,440,623</u>
OPERATING INCOME	<u>162,523</u>	<u>760,213</u>
NONOPERATING REVENUE (EXPENSE), NET:		
Rental property, net	(9,091)	(40,660)
Investment income	243,738	173,714
Noncapital grants and contributions	--	8,645
Provision for bad debt, Foundation receivable	(500,000)	--
Gain (loss) on disposal of capital assets	<u>1</u>	<u>(91,063)</u>
Nonoperating revenue (expense), net	<u>(265,352)</u>	<u>50,636</u>
EXCESS OF REVENUE OVER (UNDER) EXPENSES BEFORE TRANSFERS TO FOUNDATION	(102,829)	810,849
TRANSFERS TO FOUNDATION	<u>(416,641)</u>	<u>(25,250)</u>
INCREASE (DECREASE) IN NET ASSETS	(519,470)	785,599
NET ASSETS, beginning of year	<u>12,167,262</u>	<u>11,381,663</u>
NET ASSETS, end of year	\$ <u>11,647,792</u>	<u>12,167,262</u>

See notes to financial statements

DALLAS COUNTY HOSPITAL

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**Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 8,856,079	8,882,363
Cash paid to employees for salaries and benefits	(4,173,822)	(3,830,221)
Cash paid to suppliers and contractors	(5,311,125)	(4,544,838)
Other receipts and payments, net	<u>579,132</u>	<u>43,531</u>
Net cash provided by (used in) operating activities	<u>(49,736)</u>	<u>550,835</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County taxes received	1,425,669	1,304,817
Noncapital grants and contributions	<u>--</u>	<u>8,645</u>
Net cash provided by noncapital financing activities	<u>1,425,669</u>	<u>1,313,462</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(2,510,144)	(2,638,304)
Principal paid on long-term debt	(569,243)	(453,061)
Proceeds from long-term debt	--	1,500,000
Payments for revenue bond issuance cost	--	(29,862)
Interest paid on long-term debt	<u>(200,377)</u>	<u>(221,196)</u>
Net cash used in capital and related financing activities	<u>(3,279,764)</u>	<u>(1,842,423)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from (deposits to) assets limited as to use, net	1,866,387	(72,777)
Investment income	176,730	153,122
Cash received from rental property, net	12,641	9,098
Transfers to Foundation	<u>(416,641)</u>	<u>(25,250)</u>
Net cash provided by investing activities	<u>1,639,117</u>	<u>64,193</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(264,714)	86,067
CASH AND CASH EQUIVALENTS - Beginning of year	<u>361,529</u>	<u>275,462</u>
CASH AND CASH EQUIVALENTS - End of year	\$ <u><u>96,815</u></u>	<u><u>361,529</u></u>

See notes to financial statements

DALLAS COUNTY HOSPITAL

Perry, Iowa

**Statements of Cash Flows (Continued)
For the Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income	\$ 162,523	760,213
Adjustments to reconcile operating income to net cash provided by (used in) operating activities -		
County tax revenue	(1,274,332)	(1,275,831)
Depreciation and amortization	1,014,639	882,724
Interest expense included in operating expenses	199,168	224,008
(Increase) decrease in current assets -		
Receivables -		
Patients	(518,977)	257,612
Other	212,589	(219,362)
Inventories	(10,474)	8,301
Prepaid expenses	10,862	(579)
Estimated third-party payor settlements - Medicare and Medicaid	9,048	(9,048)
Increase (decrease) in current liabilities -		
Accounts payable	13,263	(83,172)
Salaries, wages and accrued vacation payable	(90,235)	26,824
Accrued payroll taxes and other	52,102	6,534
Estimated third-party payor settlements - Medicare and Medicaid	<u>170,088</u>	<u>(27,389)</u>
Net cash provided by (used in) operating activities	\$ <u>(49,736)</u>	<u>550,835</u>

See notes to financial statements

DALLAS COUNTY HOSPITAL FOUNDATION
(A Component Unit of Dallas County Hospital)
Perry, Iowa

Statements of Financial Position
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 102,758	97,275
Contributions receivable	3,340	--
Interest receivable	10,959	2,048
Other receivables	1,283	--
Grant receivable	--	120,000
Certificate of deposit	33,185	30,000
Total current assets	<u>151,525</u>	<u>249,323</u>
Restricted cash:		
Bond fund	132,070	132,471
Debt service reserve fund	406,352	399,243
Repair and replacement fund	28,021	20,676
Total restricted cash	<u>566,443</u>	<u>552,390</u>
Property and equipment:		
Spring Valley Retirement Facility	4,762,828	4,729,339
Less accumulated depreciation and amortization	1,106,847	852,653
Total property and equipment	<u>3,655,981</u>	<u>3,876,686</u>
Other asset,		
Deferred debt issue costs, net of accumulated amortization	<u>181,036</u>	<u>197,877</u>
Total assets	<u>\$ 4,554,985</u>	<u>4,876,276</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
Current liabilities:		
Current maturities of long-term debt	\$ 115,000	105,000
Accounts payable	20,043	285
Accounts payable, related party	101,543	314,160
Accrued payroll	4,925	--
Deposits	35,100	35,750
Accrued interest	92,893	96,052
Total current liabilities	<u>369,504</u>	<u>551,247</u>
Long-term debt, less current maturities	<u>4,720,000</u>	<u>4,835,000</u>
Net assets (deficit):		
Unrestricted	(548,817)	(512,930)
Temporarily restricted	14,298	2,959
Total net assets (deficit)	<u>(534,519)</u>	<u>(509,971)</u>
Total liabilities and net assets (deficit)	<u>\$ 4,554,985</u>	<u>4,876,276</u>

See notes to financial statements

DALLAS COUNTY HOSPITAL FOUNDATION
(A Component Unit of Dallas County Hospital)
Perry, Iowa

Statements of Activities
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES:		
Contributions and grants	\$ 10,123	23,105
Rental income -		
Assisted and independent living units	938,715	751,795
Garage, guest room and other	11,141	16,580
Meal income	3,506	3,319
Investment return	24,454	8,411
Other, golf outing	1,071	19,641
Total unrestricted revenues	<u>989,010</u>	<u>822,851</u>
Net assets released from restrictions	<u>2,050</u>	<u>120,000</u>
Total unrestricted revenues and other support	<u>991,060</u>	<u>942,851</u>
EXPENSES:		
Program services		
Salaries	437,606	424,334
Fringe benefits and payroll taxes	116,761	122,078
Meals	97,221	93,387
Total program services	<u>651,588</u>	<u>639,799</u>
Supporting services		
Administration and general	64,938	88,644
Management fee	52,500	--
Property taxes	30,000	--
Rent expense	7,350	7,000
Operation of plant	105,400	84,566
Depreciation and amortization	271,035	264,883
Total supporting services	<u>531,223</u>	<u>445,093</u>
Interest	<u>281,296</u>	<u>288,168</u>
Total expenses	<u>1,464,107</u>	<u>1,373,060</u>
(Decrease) in unrestricted net assets	<u>(473,047)</u>	<u>(430,209)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	13,389	--
Net assets released from restriction	<u>(2,050)</u>	<u>(120,000)</u>
Increase (decrease) in temporarily restricted net assets	<u>11,339</u>	<u>(120,000)</u>
(DECREASE) IN NET ASSETS BEFORE FORGIVENESS OF DEBT	(461,708)	(550,209)
FORGIVENESS OF DEBT - DALLAS COUNTY HOSPITAL	<u>437,160</u>	<u>--</u>
(DECREASE) IN NET ASSETS	(24,548)	(550,209)
NET ASSETS (DEFICIT)		
Beginning	<u>(509,971)</u>	<u>40,238</u>
Ending	<u>\$ (534,519)</u>	<u>(509,971)</u>

See notes to financial statements

DALLAS COUNTY HOSPITAL FOUNDATION
(A Component Unit of Dallas County Hospital)
Perry, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) in net assets	\$ (24,548)	(550,209)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	271,035	264,883
Change in assets and liabilities -		
(Increase) in contributions receivable	(3,340)	--
Decrease in prepaid expenses	--	500
(Increase) in interest receivable	(8,911)	(182)
(Increase) decrease in other receivable	(1,283)	635
Decrease in grant receivable	120,000	120,000
Increase (decrease) in accounts payable, net of amounts for property and equipment	19,758	(8,954)
Increase (decrease) in accounts payable, related party	(212,617)	201,396
Increase in accrued payroll	4,925	--
Increase (decrease) in deposits	(650)	3,150
(Decrease) in accrued interest payable	(3,159)	(338)
(Decrease) in accrued property taxes	--	(61,200)
Net cash provided by (used in) operating activities	<u>161,210</u>	<u>(30,319)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Liquidation (funding) of bond fund	401	(10,426)
(Funding) of debt service reserve fund	(7,109)	(4,507)
(Funding) of repair and replacement fund	(7,345)	(7,414)
Purchase of property and equipment	(33,489)	(19,343)
Additions to certificate of deposit	<u>(3,185)</u>	<u>--</u>
Net cash (used in) investing activities	<u>(50,727)</u>	<u>(41,690)</u>
CASH FLOWS FROM FINANCING ACTIVITIES,		
Payments on long-term borrowings	<u>(105,000)</u>	<u>(75,000)</u>
NET INCREASE (DECREASE) IN CASH	5,483	(147,009)
CASH		
Beginning	<u>97,275</u>	<u>244,284</u>
Ending	\$ <u><u>102,758</u></u>	<u><u>97,275</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u><u>284,455</u></u>	<u><u>288,505</u></u>

See notes to financial statements

DALLAS COUNTY HOSPITAL

Perry, Iowa

Notes to Financial Statements June 30, 2006 and 2005

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following describes the reporting entity and is a summary of significant accounting policies of Dallas County Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a county public hospital organized under Chapter 347, of the Code of Iowa, and governed by a seven member Board of Trustees elected for terms of six years.

A. *Reporting Entity*

For financial reporting purposes, Dallas County Hospital has included all the funds, organizations, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal year ended June 30, 2006, the Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is the Dallas County Hospital Foundation. The Foundation's financial statements are separately presented on pages 13 – 15.

These financial statements present the Hospital and the Foundation (its component unit). Certain disclosures about the Foundation are not included because the Foundation has been audited separately and a report has been issued under separate cover.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The Balance Sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two precede categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. *Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. *Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by bond indenture agreements.

G. *Patient Receivables*

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. *Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of the year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

I. *Assets Limited as to Use*

By Board of Trustees – Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

By Trustee for Debt Service – These funds are used for the payment of principal and interest on the bonds and notes and to provide funds to finance a facility expansion and improvement project to the existing Hospital facilities.

J. *Capital Assets*

The Hospital's capital assets are recorded at historical cost. Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line half-year method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	5 – 20 years
Buildings and fixed equipment	5 – 40 years
Major moveable equipment	3 – 25 years

K. *Deferred Financing Costs*

Deferred financing costs related to the issuance of the Hospital Revenue Bonds and Notes Series 2002 and 2004 are being amortized over the life of the related debt on a straight-line basis. Amortization expense of \$10,614 and \$8,341 for 2006 and 2005, respectively, is included in the accompanying statements of revenue, expenses and changes in net assets.

L. *Compensated Absences*

Employees of the Hospital earn annual Paid Time Off (PTO) at various specific rates during their period of employment. PTO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent they are paid during the year and the vested amount is recorded as a current liability.

M. *Deferred Revenue*

Deferred revenue consists of property taxes received but not spent.

N. *Investments and Investment Income*

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in the excess of revenue over (under) expenses unless the income is restricted by donor or law.

O. *Statements of Revenue, Expenses and Changes in Net Assets*

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses.

P. *Net Patient Service Revenue*

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Q. *Grants and Contributions*

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

R. *Group Health Insurance Costs*

The Hospital is self-insured under its employee group health program, up to certain limits. Included in the accompanying statements of revenue, expenses and changes in net assets is a provision for premiums for excess coverage and payments for claims, including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year end.

S. *Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of these amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

T. *Management*

The Hospital is a provider of healthcare services as a Critical Access Hospital. The Hospital has an agreement for management services with Central Iowa Hospital Corporation in Des Moines, Iowa. The Hospital has had this agreement with Central Iowa Hospital Corporation since 1999.

U. *Reclassifications*

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 reporting format.

(2) **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2004.

Medicaid – Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

(3) **Cash and Investments**

The Hospital's deposits in banks at June 30, 2006 and 2005 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital also maintains investments in marketable equity securities which were received by donation.

The Hospital's investments are carried at fair value. As of June 30, 2006 and 2005, the Hospital's investments, including assets limited as to use, consisted of the following:

	<u>2006</u>	<u>2005</u>
Cash and money market funds	\$ 119,723	573,432
Certificates of deposit	4,289,608	5,105,259
US government securities	392,438	998,717
Marketable equity securities	93,519	84,267
Accrued interest receivable	<u>118,337</u>	<u>51,329</u>
	<u>\$ 5,013,625</u>	<u>6,813,004</u>

The carrying value of investments, including assets limited as to use, shown above are included in the accompanying balance sheets as follows:

By Board for Capital Improvements:

	<u>2006</u>	<u>2005</u>
Cash and money market funds	\$ 39,768	504,464
Certificates of deposit	3,859,608	4,675,259
US government securities	392,438	998,717
Marketable equity securities	93,519	84,267
Accrued interest receivable	<u>118,337</u>	<u>51,329</u>
	<u>\$ 4,503,670</u>	<u>6,314,036</u>

By Trustee for Debt Service:

	<u>2006</u>	<u>2005</u>
Cash and money market funds	\$ 79,955	68,968
Certificates of deposit	<u>430,000</u>	<u>430,000</u>
	509,955	498,968
Less amounts required for current obligations	<u>(79,955)</u>	<u>(68,968)</u>
	<u>\$ 430,000</u>	<u>430,000</u>

In connection with the issuance of Dallas County Hospital, Hospital Revenue Bonds/Notes, Series 2004 and 2002, the Hospital is required to maintain the following funds:

Sinking Fund – Established for the monthly deposit by the Hospital of 1/12th of the next annual principal payment and 1/6th of the next semi-annual interest payment.

Debt Service Reserve Fund – Established for the deposit of the amount of the Debt Service Reserve Fund requirement on the date of issuance of the Series 2004 and 2002 Bonds/Notes.

Credit Risk: The Hospital has invested in common stock and government obligations. The value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

Interest Rate Risk: The primary objectives of the Hospital's investment policy is to assure preservation of capital through investments in government insured vehicles, to retain liquidity to meet projected cash needs, and to realize the best available to rate of return.

(4) Capital Assets

Capital assets activity for the years ended June 30, 2006 and 2005 were as follows:

	June 30, 2005	Additions	Transfers and Disposals	June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	2,034,652	2,193,834	(268,034)	3,960,452
Total capital assets, not being depreciated	2,104,175	2,193,834	(268,034)	4,029,975
Capital assets, being depreciated:				
Land Improvements	384,892	--	--	384,892
Buildings and fixed equipment	8,936,894	478,714	175,817	9,591,425
Major moveable equipment	5,329,253	205,679	92,217	5,627,149
Total capital assets, being depreciated	14,651,039	684,393	268,034	15,603,466
Less accumulated depreciation:				
Land Improvements	(354,348)	(6,117)	--	(360,465)
Buildings and fixed equipment	(4,308,672)	(303,352)	--	(4,612,024)
Major moveable equipment	(3,171,893)	(694,556)	--	(3,866,449)
Total accumulated depreciation	(7,834,913)	(1,004,025)	--	(8,838,938)
Total capital assets, being depreciated, net	6,816,126	(319,632)	268,034	6,764,528
Total capital assets, net	\$ 8,920,301	1,874,202	--	10,794,503

	June 30, 2004	Additions	Transfers and Disposals	June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	1,013,834	1,680,147	(659,329)	2,034,652
Total capital assets, not being depreciated	<u>1,083,357</u>	<u>1,680,147</u>	<u>(659,329)</u>	<u>2,104,175</u>
Capital assets, being depreciated:				
Land Improvements	385,583	--	(691)	384,892
Buildings and fixed equipment	8,275,362	99,597	561,935	8,936,894
Major moveable equipment	4,914,334	970,605	(555,686)	5,329,253
Total capital assets, being depreciated	<u>13,575,279</u>	<u>1,070,202</u>	<u>5,558</u>	<u>14,651,039</u>
Less accumulated depreciation:				
Land Improvements	(348,582)	(6,457)	691	(354,348)
Buildings and fixed equipment	(4,128,849)	(255,789)	75,966	(4,308,672)
Major moveable equipment	(3,038,684)	(612,137)	478,928	(3,171,893)
Total accumulated depreciation	<u>(7,516,115)</u>	<u>(874,383)</u>	<u>555,585</u>	<u>(7,834,913)</u>
Total capital assets, being depreciated, net	<u>6,059,164</u>	<u>195,819</u>	<u>561,143</u>	<u>6,816,126</u>
Total capital assets, net	<u>\$ 7,142,521</u>	<u>1,875,966</u>	<u>(98,186)</u>	<u>8,920,301</u>

Depreciation expense of \$1,004,025 and \$874,383 in 2006 and 2005, respectively, is included in the accompanying statements of revenue, expenses and change in net assets.

Construction in progress at June 30, 2006 consists primarily of progress billings on a construction contract, plus architect and construction management fees relating to a facility expansion and improvement project. Total costs associated with this project are expected to be approximately \$7 million over a 5-year period.

Outstanding commitments under purchase agreements amount to approximately \$1,300,000 at June 30, 2006.

(5) Rental Property

The Hospital owns a doctor's clinic located in Perry, Iowa. The clinic is valued at the Hospital's cost net of accumulated depreciation.

	2006	2005
Land and land improvements	\$ 844	844
Buildings and fixed equipment	<u>1,084,894</u>	<u>1,084,894</u>
	1,085,738	1,085,738
Less accumulated depreciation	<u>869,712</u>	<u>847,980</u>
Rental property, net	<u>\$ 216,026</u>	<u>237,758</u>

Rental income related to the clinic building above and specialty clinic space of the Hospital are reported net of related expense under nonoperating revenue, net in the statements of revenue, expenses and changes in net assets.

(6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2006 and 2005 consisted of the following:

	June 30, 2005	Borrowings	Payments	June 30, 2006	Due Within One Year
Bonds payable, Series 2002 (A)	\$ 3,030,000	--	120,000	2,910,000	125,000
Notes payable, Series 2004 (B)	1,295,000	--	310,000	985,000	320,000
Capital lease obligation (C)	517,391	--	139,243	378,148	145,654
	<u>\$ 4,842,391</u>	<u>--</u>	<u>569,243</u>	<u>4,273,148</u>	<u>590,654</u>
	June 30, 2004	Borrowings	Payments	June 30, 2005	Due Within One Year
Bonds payable, Series 2002 (A)	\$ 3,145,000	--	115,000	3,030,000	120,000
Notes payable, Series 2004 (B)	--	1,500,000	205,000	1,295,000	310,000
Capital lease obligation (C)	650,452	--	133,061	517,391	139,215
	<u>\$ 3,795,452</u>	<u>1,500,000</u>	<u>453,061</u>	<u>4,842,391</u>	<u>569,215</u>

- (A) The Board of Trustees adopted a resolution to issue a \$3,360,000 Hospital Revenue Bonds Series 2002 dated July 1, 2002, to finance a facility expansion and improvement project. The bonds are payable in annual installments ranging from \$125,000 to \$265,000 through June 2022 with interest payable semiannually at 3.50% to 5.90%. The Bond resolution requires, among other things, the establishment of a "Debt Service Reserve Fund" (the Reserve Fund) to be held by the issuer for the purpose of paying principal and interest on the Bonds when sufficient moneys are unavailable in the "Principal and Interest Sinking Fund" (the Sinking Fund) into which the loan repayments are deposited in order to pay the principal and interest on the Bonds. A balance of \$280,000 must be maintained in the Reserve Fund.
- (B) The Board of Trustees adopted a resolution to issue a \$1,500,000 Hospital Revenue Notes Series 2004 dated October 14, 2004, to finance a facility expansion and improvement project and a Health Information System. The Notes are payable in annual installments ranging from \$320,000 to \$340,000 through June 2009, with interest payable semiannually at 2.75% to 3.65%. The Notes resolution requires, among other things the establishment of a "Debt Service Reserve Fund" (the Reserve Fund) to be held by the issuer for the purpose of paying principal and interest on the Notes when sufficient monies are unavailable in the "Principal and Interest Sinking Fund" (the Sinking Fund) into which the loan repayments are deposited in order to pay the principal and interest on the Notes. A balance of \$150,000 must be maintained in the Reserve Fund.

- (C) The Hospital has entered into two agreements to acquire medical equipment under capital leases. The obligation under the first lease calls for monthly installments of \$8,421 through November 2008, including interest at a rate of 4.53%. The obligation under the second lease calls for monthly installments of \$4,894 through February 2009, including interest at 4.51%. The total amount capitalized under the leases is \$716,400 with related accumulated amortization of \$382,080 at June 30, 2006.

Annual debt service requirements related to the long-term debt is as follows:

Year	Capital Lease Obligations		
	Principal	Interest	Totals
2007	\$ 145,654	14,130	159,784
2008	152,391	7,393	159,784
2009	80,103	1,128	81,231
	<u>\$ 378,148</u>	<u>22,651</u>	<u>400,799</u>

Year	Revenue Bonds/Notes Payable		
	Principal	Interest	Totals
2007	\$ 445,000	187,010	632,010
2008	455,000	171,840	626,840
2009	475,000	155,135	630,135
2010	140,000	136,650	276,650
2011	145,000	130,070	275,070
2012 - 2016	855,000	532,747	1,387,747
2017 - 2021	1,115,000	276,850	1,391,850
2022	265,000	15,635	280,635
	<u>\$ 3,895,000</u>	<u>1,605,937</u>	<u>5,500,937</u>

Under the terms of the Hospital Revenue Bonds/Notes, the Hospital is required to maintain certain funds which are included in the assets limited as to use or restricted in the accompanying financial statements.

A summary of interest expense on borrowed funds during the years ended June 30, 2006 and 2005 follows:

	<u>2006</u>	<u>2005</u>
Interest cost:		
Capitalized	\$ 20,597	--
Expensed	<u>199,168</u>	<u>224,008</u>
	<u>\$ 219,765</u>	<u>224,008</u>

(7) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$3,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

(8) Pension and Retirement Benefits

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the year ended June 30, 2006, 2005 and 2004 were \$203,730, \$164,041 and \$169,545, respectively, equal to the required contributions for each year.

(9) Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(10) Operating Leases

South Building Addition

The Hospital leases 19,587 rentable square feet (61.88%) of an attached building on the Hospital's campus under a 164 month non-cancelable operating lease. The monthly lease payments for the operating lease are minimum monthly payments of \$25,545 through the first five years, and then adjusted for each succeeding five year period by a CPI adjustment as defined in the lease, not to exceed a 5% increase. Rental expense for the operating lease was \$102,180 for the year ended June 30, 2006.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2006:

2007	\$	306,540
2008		306,540
2009		306,540
2010		306,540
2011		306,540
2012 - 2016		1,532,700
2017 - 2020		<u>1,021,800</u>
Total	\$	<u>4,087,200</u>

Outpatient Surgery Center

During 2006, the Hospital entered into a lease agreement with Clinic Investments, Inc. (Lessor) for a Medical Office Building (Unit) located in West Des Moines, Iowa, for the purpose of operating a provider-based outpatient surgical services facility in West Des Moines, Dallas County, Iowa. Lease payments are to be determined in accordance with the lease document upon construction of the Unit and shall be fixed for the initial five-year term of the lease. The initial term of the lease is for a period of five (5) years, commencing on the day of the first surgical procedure performed in the Unit.

In conjunction with the lease agreement, the Hospital has also entered into a management agreement for the purposes of rendering management and administrative services needed for the operations of the Unit. Commencement of the management agreement is simultaneous with the terms of the lease agreement. The Hospital is required to pay an annual fixed management fee of \$300,000 adjusted every two years as defined in the lease.

(11) Concentration of Credit Risk

The Hospital grants credits without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	36%	36%
Medicaid	4	7
Blue Cross	28	20
Other commercial insurance	23	24
Private pay	<u>9</u>	<u>13</u>
	<u>100%</u>	<u>100%</u>

(12) Foundation

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that the Foundation is a component unit of the Hospital. The Foundation has been established to raise funds to support the operations and other activities of the Hospital. The Foundation is considered to be a component unit of the Hospital based upon the significance of the related benefit to the Hospital. The Foundation's audited statement of financial position, statement of activities and statement of cash flows of and for the years ended June 30, 2006 and 2005 are included on pages 13 - 15.

The Foundation constructed a senior housing facility on the campus of the Hospital (the Spring Valley Project (Project)). Included in the Project is a limited guarantee agreement by the Hospital with Bankers Trust Company, N.A. (the Trustee). The agreement provides that the Hospital would replenish the Foundation's Debt Service Reserve Fund (Fund) up to its required amount (approximately \$389,000) if funds from the Project are insufficient to maintain the Fund at the required amount. The obligations of the Hospital under the agreement will remain in effect until the date on which the entire principal and interest on the bonds is provided for.

The Hospital has included transfers to Foundation of \$416,641 and \$25,250 for the years ended June 30, 2006 and 2005, respectively, in the statements of revenue, expenses and changes in net assets. These amounts are related to capital advances and unreimbursed services provided by the Hospital to the Foundation.

In addition, the Hospital provided a \$500,000 loan to the Foundation which will be repaid as funds become available. This amount is included in long-term debt of the Foundation found on page 13 and in other receivable, Foundation of the Hospital found on page 9. During 2006, the Hospital established an allowance for uncollectible amounts of \$500,000 related to the receivable above due to the continued financial losses of the Foundation.

DALLAS COUNTY HOSPITAL

Perry, Iowa

**Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets
Budget and Actual (Cash Basis)****Required Supplementary Information****June 30, 2006 and 2005**

The following is a reconciliation between reported amounts and cash disbursements to budget:

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts		Variance Favorable (Unfavorable)
				Original	Amended	
Amount to be raised by taxation	\$ 1,274,332	151,337	1,425,669	1,381,647	1,381,647	44,022
Estimated other revenues / receipts	8,880,470	744,112	9,624,582	10,146,136	10,146,136	(521,554)
Total	10,154,802	895,449	11,050,251	11,527,783	11,527,783	(477,532)
Expenses / Disbursements	10,674,272	2,507,080	13,181,352	18,769,988	18,769,988	5,588,636
Net	(519,470)	(1,611,631)	(2,131,101)	(7,242,205)	(7,242,205)	\$ 5,111,104
Balance beginning of year	12,167,262	(5,044,058)	7,123,204	8,763,992	8,763,992	
Balance end of year	\$ 11,647,792	(6,655,689)	4,992,103	1,521,787	1,521,787	

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

DALLAS COUNTY HOSPITAL

Perry, Iowa

Patient Service Revenue For the Years Ended June 30, 2006 and 2005

	2006				2005			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Swing bed	--	--	638,314	638,314	--	--	495,906	495,906
Medical/surgical	506,293	42,985	--	549,278	492,763	42,804	--	535,567
	<u>506,293</u>	<u>42,985</u>	<u>638,314</u>	<u>1,187,592</u>	<u>492,763</u>	<u>42,804</u>	<u>495,906</u>	<u>1,031,473</u>
OTHER PROFESSIONAL SERVICES:								
Pharmacy	177,698	1,033,162	227,603	1,438,463	185,293	870,433	189,198	1,244,924
Operating room	53,795	1,312,033	3,445	1,369,273	63,792	1,297,542	2,237	1,363,571
Emergency department	25,929	1,286,716	290	1,312,935	18,143	1,026,130	23	1,044,296
Laboratory	114,836	1,086,992	34,335	1,236,163	115,853	1,037,812	29,926	1,183,591
CT scans	67,098	949,487	27,564	1,044,149	45,538	813,848	6,334	865,720
Physical therapy	8,472	714,200	110,622	833,294	11,029	654,931	75,835	741,795
Radiology	8,228	594,506	7,071	609,805	14,535	620,384	7,474	642,393
Emergency physicians	9,082	450,632	181	459,895	7,913	477,172	--	485,085
Cardiopulmonary	184,560	51,670	164,741	400,971	145,143	46,045	88,290	279,478
Mobile MRI	1,391	359,442	3,121	363,954	--	293,033	293,033	293,033
Ultrasounds	7,328	202,530	2,214	212,072	7,160	224,459	3,187	234,806
Anesthesia	11,400	192,200	1,850	205,450	14,402	147,896	1,786	164,084
Sleep studies	--	145,844	--	145,844	--	176,704	--	176,704
Occupational therapy	2,372	80,649	57,830	140,851	2,354	84,071	32,404	118,829
Intravenous therapy	34,479	48,424	19,865	102,768	53,112	43,378	23,923	120,413
Electrocardiology	8,202	72,399	668	81,269	8,881	68,418	884	78,183
Echocardiology	9,422	68,566	3,181	81,169	4,530	86,477	4,530	95,537
Medical supplies	625	14,128	33,457	48,210	2,035	37,534	20,677	60,246
Cardiac rehab	--	45,715	--	45,715	--	54,089	--	54,089
Nuclear medicine	761	35,223	604	36,588	2,176	26,165	2,095	30,436
Corp wellness	--	23,879	--	23,879	--	22,440	--	22,440
Transfusion services	7,738	13,062	989	21,789	14,278	27,337	2,358	43,973
Speech therapy	6,827	5,561	6,740	19,128	2,507	11,088	2,750	16,345
Treadmills	462	11,307	--	11,769	--	13,533	--	13,533
Bone density	--	8,933	--	8,933	--	7,330	--	7,330
Pulmonary rehab	--	5,626	--	5,626	--	10,266	--	10,266
Dietician	--	3,120	--	3,120	--	1,760	--	1,760
Telemetry	--	--	--	--	17,360	--	--	17,360
Diabetic education	--	--	--	--	--	1,790	--	1,790
	<u>740,705</u>	<u>8,816,006</u>	<u>706,371</u>	<u>10,263,082</u>	<u>736,034</u>	<u>8,182,065</u>	<u>493,911</u>	<u>9,412,010</u>
	<u>1,246,998</u>	<u>8,858,991</u>	<u>1,344,685</u>	<u>11,450,674</u>	<u>1,228,797</u>	<u>8,224,869</u>	<u>989,817</u>	<u>10,443,483</u>
GROSS PATIENT SERVICE REVENUE								

DALLAS COUNTY HOSPITAL
Perry, Iowa

Other Operating Revenue
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Nutritional service	\$ 185,958	167,027
Grant revenue	72,356	8,143
South addition maintenance	42,533	--
Vendor discounts/rebates	13,425	37,913
Other	38,678	18,969
Medical records transcripts	11,411	14,839
Dietary instruction	<u>2,182</u>	<u>16,926</u>
	<u>\$ 366,543</u>	<u>263,817</u>

DALLAS COUNTY HOSPITAL

Perry, Iowa

Departmental Expenses For the Years Ended June 30, 2006 and 2005

	2006				2005			
	Salaries and Wages	Professional Fees	Supplies and Other	Total	Salaries and Wages	Professional Fees	Supplies and Other	Total
NURSING SERVICES:								
Medical/surgical	\$ 739,112	30,504	95,107	864,723	690,367	134	69,864	760,365
Nursing administration	79,659	--	1,386	81,045	34,212	--	149	34,361
	<u>818,771</u>	<u>30,504</u>	<u>96,493</u>	<u>945,768</u>	<u>724,579</u>	<u>134</u>	<u>70,013</u>	<u>794,726</u>
OTHER PROFESSIONAL SERVICES:								
Emergency department	457,892	620,053	59,500	1,137,445	350,197	581,980	52,615	984,792
Pharmacy	18,993	161,657	534,062	714,712	17,934	135,380	453,957	607,271
Laboratory	182,922	33,373	346,355	562,650	185,171	1,522	283,683	470,376
Operating room	192,748	--	182,817	375,565	195,042	27,000	188,379	410,421
Physical therapy	--	334,006	6,804	340,810	--	270,489	7,766	278,255
Radiology	257,905	150	81,268	339,323	255,336	16,200	68,843	340,379
Cardiopulmonary	148,606	--	27,520	176,126	122,786	1,254	27,936	151,976
Anesthesia	--	112,998	12	113,010	--	119,900	1,514	121,414
CT scans	--	--	96,829	96,829	--	--	57,809	57,809
Mobile MRI	--	76,925	--	76,925	--	67,900	--	67,900
Occupational therapy	--	56,740	298	57,038	--	43,372	90	43,462
Sleep studies	--	52,725	--	52,725	--	66,900	--	66,900
Cardiac rehab	31,362	--	16,563	47,925	49,343	--	6,802	56,145
Echocardiology	--	39,123	--	39,123	--	52,013	--	52,013
Social services	30,225	--	830	31,055	32,460	255	3,487	36,202
Ultrasonounds	--	16,152	5,520	21,672	--	23,250	4,588	27,838
Nuclear medicine	--	17,693	--	17,693	--	17,596	--	17,596
Electrocardiology	--	10,310	523	10,833	--	3,450	322	3,772
Specialty clinic - South addition	--	--	9,125	9,125	--	--	--	--
Speech therapy	--	7,651	--	7,651	--	5,965	--	5,965
Volunteer coordinator	6,434	--	--	6,434	14,386	--	207	14,593
Diabetic education	--	150	4,428	4,578	6,498	--	5,190	11,688
Auxiliary/Foundation coordinator	--	--	96	96	509	--	289	798
Lifeline	--	--	--	--	2,890	2,719	1,282	6,891
	<u>1,327,087</u>	<u>1,539,706</u>	<u>1,372,550</u>	<u>4,239,343</u>	<u>1,232,552</u>	<u>1,437,145</u>	<u>1,164,759</u>	<u>3,834,456</u>
GENERAL SERVICES:								
Facility	108,649	81,772	581,107	771,528	94,036	71,835	338,573	504,444
Nutritional services/dietician	237,559	2,572	176,066	416,197	211,332	215	185,541	397,088
Environmental services	136,161	56,453	25,002	217,616	124,125	48,946	8,045	181,116
	<u>482,369</u>	<u>140,797</u>	<u>782,175</u>	<u>1,405,341</u>	<u>429,493</u>	<u>120,996</u>	<u>532,159</u>	<u>1,082,648</u>
ADMINISTRATIVE SERVICES								
	847,541	799,923	427,912	2,075,376	778,102	591,098	418,755	1,787,955
NONDEPARTMENTAL:								
Depreciation and amortization	--	--	1,014,639	1,014,639	--	--	882,724	882,724
Employee Benefits	--	--	659,921	659,921	--	--	698,853	698,853
Interest	--	--	199,168	199,168	--	--	224,008	224,008
Insurance	--	--	134,716	134,716	--	--	135,253	135,253
	<u>--</u>	<u>--</u>	<u>2,008,444</u>	<u>2,008,444</u>	<u>--</u>	<u>--</u>	<u>1,940,838</u>	<u>1,940,838</u>
TOTAL EXPENSES	\$ 3,475,768	2,510,930	4,687,574	10,674,272	3,164,726	2,149,373	4,126,524	9,440,623

DALLAS COUNTY HOSPITAL
Perry, Iowa

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2006 and 2005

ANALYSIS OF AGING:

Days Since Discharge	2006		2005	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 812,401	44.76 %	735,408	53.06
31 - 60	318,018	17.52	211,045	15.23
61 - 90	139,140	7.67	120,502	8.69
91 - 120	133,898	7.38	81,658	5.89
> 120	411,513	22.67	237,493	17.13
	<u>1,814,970</u>	<u>100.00 %</u>	<u>1,386,106</u>	<u>100.00</u>

Less:

Allowance for doubtful accounts	(265,083)	(208,158)
Allowance for contractual adjustments	<u>(169,567)</u>	<u>(316,605)</u>
	<u>\$ 1,380,320</u>	<u>861,343</u>

NET DAYS REVENUE IN PATIENT
ACCOUNTS RECEIVABLE

2006	2005
52.39 days	35.57 days

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 208,158	180,510
Provision of uncollectible accounts	420,710	177,715
Recoveries of accounts previously written off	152,212	187,365
Accounts written off	<u>(515,997)</u>	<u>(337,432)</u>
Balance, end of year	<u>\$ 265,083</u>	<u>208,158</u>

DALLAS COUNTY HOSPITAL
Perry, Iowa

Inventory/Prepaid Expenses
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
INVENTORY:		
Departmental	\$ 128,301	122,924
Pharmacy	80,996	81,405
General stores/central supply	33,609	28,095
Dietary	<u>9,875</u>	<u>9,883</u>
	\$ <u>252,781</u>	<u>242,307</u>
 PREPAID EXPENSES:		
Other	\$ 82,119	89,882
Insurance	<u>49,409</u>	<u>52,508</u>
	\$ <u>131,528</u>	<u>142,390</u>

DALLAS COUNTY HOSPITAL
Perry, Iowa

Financial and Statistical Highlights
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Patient days:		
Acute	964	971
Swingbed	1,470	1,228
Respite	<u>11</u>	<u>5</u>
Total	<u><u>2,445</u></u>	<u><u>2,204</u></u>
 Patient discharges:		
Acute	305	293
Swingbed	132	125
Respite	<u>3</u>	<u>1</u>
Total	<u><u>440</u></u>	<u><u>419</u></u>
 Average length of stay:		
Acute	3.16 days	3.31 days
Swingbed	11.14 days	9.82 days
Respite	3.67 days	5.00 days
 Emergency room visits	5,925	5,877
 Specialty clinic visits	3,080	3,075
 Other outpatient visits	16,769	17,726
 Number of hospital employees - full-time equivalents	92.17	89.06



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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards**

To the Board of Trustees of
Dallas County Hospital
Perry, Iowa:

We have audited the basic financial statements of DALLAS COUNTY HOSPITAL (Hospital), as of and for the year ended June 30, 2006, and have issued our report thereon dated September 14, 2006. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Dallas County Hospital, and other parties to whom Dallas County Hospital may report. This report is not intended to and should not be used by anyone other than those specified parties.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
September 14, 2006.

DALLAS COUNTY HOSPITAL

Perry, Iowa

Schedule of Findings and Questioned Costs

June 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions or material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No reportable conditions were identified.

Part III: Other Findings Related to Required Statutory Reporting

- III-A-06 Certified Budget: Hospital disbursements during the year ended June 30, 2006 did not exceed budgeted amounts.
- III-B-06 Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-06 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-D-06 Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to \$1,500 without publicly invited and opened written competitive bids.
- III-E-06 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-F-06 Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

DALLAS COUNTY HOSPITAL

Perry, Iowa

Schedule of Findings and Questioned Costs

June 30, 2006

- III-G-06 Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor.

DALLAS COUNTY HOSPITAL
Perry, Iowa

Audit Staff
For the Year Ended June 30, 2006

This audit was performed by:

Roger E. Thompson, FHFMA, CPA, Partner

Marty J. Dubas, FHFMA, CPA, Senior Manager

Lacy J. Srp, Staff Auditor

Jess D. Paisley, Staff Auditor